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Inequality: Concepts, Data, Perspectives and Solutions

Michael Chibba and John M. Luiz

Key Points

- A comprehensive treatise on inequality from economic, social, business and metrics/data perspectives is lacking in the literature and this treatise fills that void.
- We posit that: (a) neoclassical economics has failed to address inequality within nations; (b) the social theories on inequality are of ancillary importance; (c) businesses have contributed to inequality in several ways but have also made a positive contribution towards a fairer, more equitable society; (d) data on inequality is not up to date.
- Taxation and social programs offer an inadequate approach to tackling inequality without a proper framework and supporting approaches. In addition, complementarity between neoclassical economics and behavioural economics would be a positive factor in addressing inequality and should be pursued.
- Issues of inequality metrics and data reliability have moved to the forefront of discussions as the data currently available is the basis of much dissent. Robust metrics and reliable and up to date inequality data (as well as related statistics) are indispensable for designing, implementing, monitoring, and evaluating inequality interventions and policies.

Introduction

Inequality can be traced back to the dawn of civilization, and sages and scholars over the centuries have remarked on the subject in one way or another. Confucius, Kautilya, Plato and Aristotle were among the early philosophers who commented on inequality. Since the eighteenth century, Jean-Jacques Rousseau, Adam Smith, Karl Marx and David Emile

Durkheim, among others, have also expressed their viewpoints. Recently, various observers and scholars (including Dow and Reed, 2013; Flannery and Marcus, 2012; Keefe, 2017; Kolbert, 2018; Payne, 2017; Piketty, 2014; Pilling, 2018; Shapiro, 2017; Stiglitz, 2015) have shared their unique perspectives as well. Indeed, the origins of and viewpoints on inequality have a very long history. Yet understanding of what inequality is, how it occurs and how best to tackle it, remains contested and is an ongoing challenge.

Currently, tackling inequality is high on the agendas of many nations, international organizations, civil society groups and, increasingly, the private sector as well. However, inequality may be viewed from diverse perspectives in the social sciences—including economic, social, political, management, business, cultural and psychological perspectives.¹ The purpose of this paper is to address issues that emanate from the following lines of inquiry: How is inequality defined? What are the economic, social, business and related perspectives on inequality? What are the key conditions and dimensions of inequality? What drives inequality? What do some of the leading experts have to say about the subject? What policy solutions—real, imagined or proposed—are there to tackle inequality? What can we learn from a case study? What can we say about inequality metrics and data? What solutions can we offer to address inequality?

To achieve the desired outcomes, we proceed as follows. First, we discuss the relevant meanings of social and economic inequality and highlight the perceived causes of inequality. We then discuss inequality metrics and data, the current situation of rising economic inequality in the world and within nations, and also the relationship between poverty and inequality. Next, we present some of the key economic and sociological theories and policy prescriptions offered by six scholars (veritable gurus of their discipline and on the subject of inequality). Third, we engage in a review and analysis of the role of business in development and how business can impact inequality, society, economy and government. Fourth, we undertake a critical analysis using a case study, where South African business is seen as an economic development partner, acting either as an agent of change or to perpetuate the

¹ This definition of social sciences is compatible with that used by the Economic and Social Research Council, UK.

status quo. Fifth, given the drawbacks of neoclassical economics, we suggest that behavioral economics (BEc)—which is defined as having a focus on cognition, culture, social and related aspects that impact on economics and decision-making—and possibly heterodox economics—which is strong in theory and realistic assumptions primarily—offer the way forward in studying, testing and tackling inequality as complementary paradigms. Finally, concluding remarks include a *post hoc* recapitulation.

Economic and Social Inequality

‘In the current flurry of public concern with inequality’, remarked Therborn (2013: 35), ‘very little theoretical reflection on the meanings and implications of inequality has come to the fore.’ Today, over five years later, there is some change in the situation, as scholars are increasingly addressing matters of definition (for example, Alacevich and Soci, 2018); but not sufficiently to change the landscape. What then, as a point of departure, we ask, are the meanings, causes and implications of economic and social inequality?

Definitions, causes and links to economic and social inequality

Economic inequality is normally defined in terms of income, wealth or consumption. Any good survey of literature reveals numerous contributing factors for rising inequality in the world in the twenty-first century. (In the past, inequality has declined mainly under special circumstances, as in the case of European countries during the Second World War, 1940–45, due to the destruction of wealth and capital; or in the United States between 1950 and 1980). The scope and depth of inequality-contributing factors (and inequality-reducing interventions in certain cases) include: globalization (Atkinson, 2015; Bourguignon, 2015/2012; Dollar, 2005; Stiglitz, 2012; Williamson, 1997); wars and warfare (Blank, 2011; Dow and Reed, 2013; Piketty, 2014); apartheid’s legacy, racial inequality, ethnic inequality and discrimination (Alesina, Michalopoulos and Papaioannou, 2016; Chibba and Luiz, 2011; Stanbridge and Ramos, 2012); wealth and capital inequality (Bowles, 2012; Pfeffer, Danziger and Schoeni, 2014; Piketty, 2014; Stiglitz, 2012; Taibbi, 2014); technological change (Atkinson, 2015; Blank, 2011;

Bourguignon, 2015/2012; Stanbridge and Ramos, 2012; Stiglitz, 2012); financial services, deregulation and corporate deviance (Atkinson, 2015; Stiglitz, 2012; Keefe, 2017; Soltes, 2016); government policies, redistribution programs and economic growth (innumerable experts including Blank, 2011; Bowles, 2012; Chibba and Luiz, 2011; Ostry, Berg and Tsangarides, 2014; Pilling, 2018); market forces (Atkinson 2015; Bobba, Flabbi and Levy, 2018; Piketty, 1997/2015; Stiglitz, 2012); popular uprisings (Diaz, 2017); and the poverty–inequality nexus (Banerjee and Duflo, 2011; Chibba and Luiz, 2011; Segal, 2018; Sen, 1973/1977; Stiglitz, 2012). Other factors that have been linked to inequality include: (i) climate change (Oxfam, 2015); (ii) immigration, which accounted for a small rise in overall wage inequality over the past 25 years (Card, 2009); (iii) putting labor in a disadvantageous bargaining position *vis-à-vis* capital; (iv) not investing enough in our society; (v) tackling informality in the economy—as the informal sector shows a direct correlation to inequality (Messina and Silva, 2018); (vi) the continued divergence of societies within countries (as Shapiro 2017, for example, has explained that America’s wealth gap deepens the racial divide); (vii) corporate wrongdoers and immunity (Keefe, 2017; Soltes, 2016); (viii) human trafficking, migration and exploitation (Chibba, 2014); (ix) sustainable development (Hurd, 2012; Genevey, Pachauri, and Tubiana, 2013; Doyle and Stiglitz, 2014); and (x) behavioral and related evolutionary traits that predispose us to making decisions that affect equality (Cohen and Dickens, 2002; Chibba, 2012; Burnham, 2015; Hoff, 2017; Payne, 2017; Kolbert, 2018; Sunstein and Reisch, 2018).

Although this list is not exhaustive, we should nevertheless add governance matters, which have their roots in the social sciences and humanities, as they are central to our discussions in many respects. A compelling example of governance and inequality in the present context (albeit from a developed country) is how the management of America, under the government of President Donald Trump, has been accompanied by his heavy hand in federal policies and machinations, and this has exacerbated inequality. Rescinding deportation protection for the undocumented, banning people from certain majority-Muslim countries from travelling to the United States, and the US Justice Department’s issuance of new

guidelines that could lead to more prosecutions for marijuana-related crimes (which will disproportionately affect African-Americans, who are far more likely to be arrested on such charges) are three of many of the recent actions on governing America that further deepen the divide between the classes, as well as between the races.

Indeed, inequality-contributing factors are pervasive and omnipresent in our world, whether overtly, causally, inherently, insidiously or systemically. This is precisely why the root causes of inequality are often elusive to pinpoint, highly contested or drawn from experiments, hypotheses, narratives, theories, ideology and culture (values, rules and mores of society). Thus, we are faced with a possible conundrum in delving into, and searching for, possible approaches to tackle inequality. Notwithstanding, there exists a preponderance of opinion, and significant preliminary evidence, on the types of intervention that are likely effective (and those that are probably not) in reducing inequality. For example, less informality (i.e. employment in the informal sector) as Messina and Silva (2018) have found, has resulted in less overall inequality in Latin America in the twenty-first century. Meanwhile, Bobba, Flabbi and Levy (2018), have determined through policy experiments (with focus on Mexico) that informality can be reduced through adjustments in the formal sector's payroll tax rate, as well as through a universal social benefit system.

Moving to social inequality, despite its long history—historical, societal and theoretical—it does not carry a universally accepted definition either. Here are three generic definitions to illustrate this point, and to show that the scope and depth of the definition poses a problem in understanding and tackling social inequality:

Social inequality refers to the unequal access people have to a wide range of material and non-material resources, supports, provisions, and opportunities that are widely viewed as valuable and desirable in society and are consequential to our lives. It also refers to the asymmetrical distributions that this unequal access fosters and perpetuates across many sites (such as the family, the economy, the workplace, and the state) and spheres (economic, political and social) (Olsen, 2011: 13).

Social inequalities are differences in human interactions, groups, and institutions, that are generated by a process of differentiation and domination, often built upon visible distinctions between one group and another. Frequently, biological cues such as skin

color, sex, or appearance, are used as the basis for constructing ideas of difference. Then, exclusion from areas of work or social life, or differential pay rates, may be used to establish a pattern of domination. By this method one group establishes preferential conditions and dominates another. This is what happens with race and ethnicity, sex and gender, class, and age (Crow and Lodha, 2011: 39).

Social inequality refers to the ways in which socially-defined categories of persons (according to characteristics such as gender, age, 'class' and ethnicity) are differentially positioned with regard to access to a variety of social 'goods', such as the labor market and other sources of income, the education and healthcare systems, and forms of political representation and participation (Walker, 2010: 1).

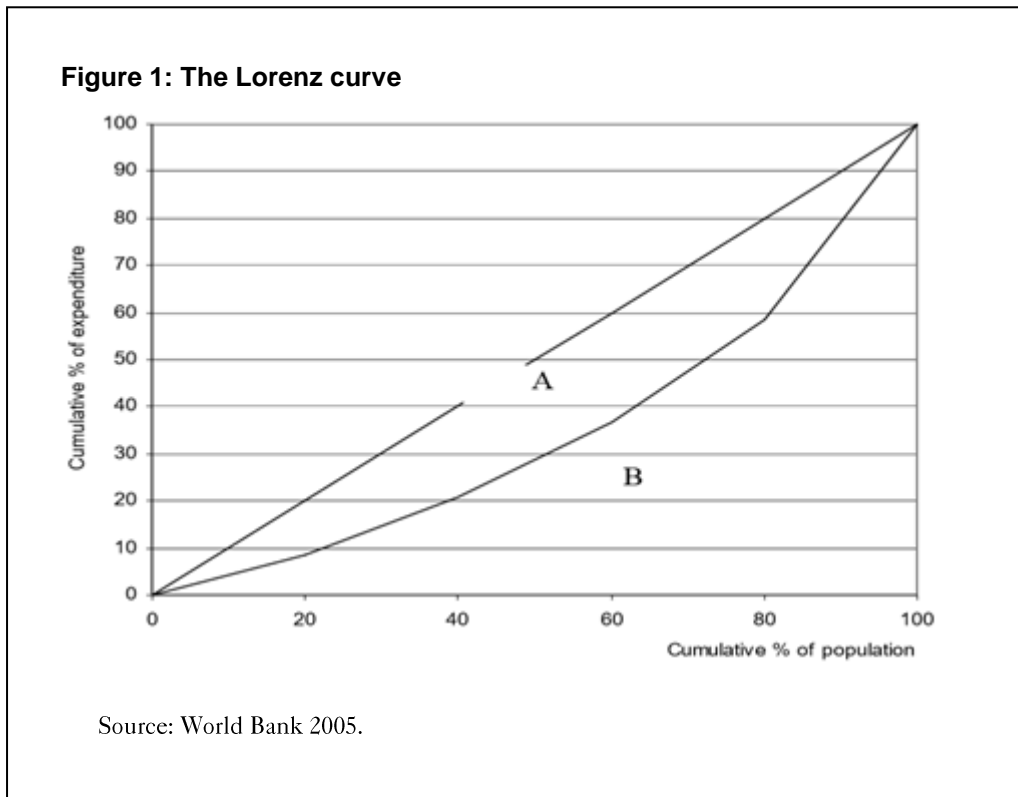
There is a rich history to the discussion on the causes of, and solutions to, social inequality in the following contexts: *power* (Who has it? Why? How is it exercised? And what are its consequences for inequality?); *social class* (What classes are there in society? How does class influence inequality?); *the state and modern corporations* (How does the state and its governance apparatus and policies impact on inequality? Does the modern corporation also innately involve inequality?) These lines of inquiry and the definitions of social inequality should suffice for now, and we will return to this discussion later in the context of the six renowned economists and sociologists, and also when we discuss business's role in inequality.

Inequality metrics and data

The literature on inequality metrics and corresponding quantitative data is voluminous. Popular indices of inequality include the Gini coefficient, the Theil index, the Palma ratio, the Hoover index and other measures, such as the Lorenz curve and the Atkinson index. There are, however, significant limitations to each of these measures. Clearly, it is beyond the scope of this section to discuss each of these metrics in detail. We will, however, highlight the most widely used index of inequality, the Gini coefficient (or Gini index), which is measured in terms of income, wealth or consumption. It uses a score of 0 to denote perfect equality, and 1 (or 100) for total inequality.

The Gini index is based on the Lorenz curve, a cumulative frequency curve that compares the distribution of a specific variable—income, wealth or consumption—with the uniform distribution that represents equality.

The diagonal line in the graph below represents perfect equality. The Gini coefficient is defined as $A/(A+B)$, where A and B are the areas shown on the graph. If $A=0$, the Gini coefficient becomes 0 (or perfect equality), whereas if $B=0$, the Gini coefficient is 1 (or complete inequality). In the example illustrated below, the Gini coefficient is roughly 0.35. With increasing equality, the curve approaches the diagonal line. Conversely, the more the curve sags, the greater the inequality.



In Table 1, we show Gini indexes for selected countries (index = coefficient \times 100):

Table 1: The Gini index for selected countries

Country	Year	Gini index	Economic inequality
Botswana	2009	60.5	Very high
Brazil	2015	51.3	Very High
Canada	2013	34.0	Moderate
Chile	2015	47.7	High
China	2012	42.2	High
Costa Rica	2015	48.2	High
Denmark	2014	28.5	Low
France	2014	32.3	Moderate
India	2011	35.2	Moderate
Panama	2015	51.0	Very High
South Africa	2011	63.4	Very high
United Kingdom	2014	34.1	Moderate
United States	2013	41.0	High

Source: World Bank, Development Research Group, 2017.
Authors' Gini groupings: <30=low; 31–40=moderate; 41–50=high; >51=very high;

The limitations and drawbacks of the Gini index are numerous (Piketty, 2014; Chibba, 2016; World Bank, 2017; UNDP, 2016). First, the index provides a crude approximation of economic inequality. Second, measurement of the Gini index often involves different variables for different countries—such as either labour, consumption or capital—so that it is impossible to distinguish among the multiple dimensions to the inequality measures when looking at cross-country data. As a result, international comparisons are inherently problematic. Third, the Gini index is often unreliable when there is political or bureaucratic interference in its measurement—as is the case of China; but in a few other cases too (notably, Argentina and Zimbabwe). Other drawbacks or limitations include the following (World Bank, 2015, 2017): (i) the Gini index measures relative, not absolute, wealth; (ii) the index is not ‘additive’ across groups (thus, country-level indices cannot be aggregated at the regional or global levels); (iii) differences in survey design and methodology in the underlying household surveys render the data not strictly amenable to comparison, either at the

country level in international data sets, or for various years. On the other hand, the World Bank (2015: 98) has noted that while the Gini index is not entirely satisfactory, it does satisfy several criteria that make it a reasonably good measure of income inequality. These criteria include: ‘mean independence’ (i.e. if all incomes were doubled, the measure would not change); ‘population size independence’ (i.e. if the population were to change, the measure of inequality should not); ‘symmetry’ (i.e. if two individuals swap incomes, there should be no change in the inequality measure); ‘Pigou-Dalton transfer sensitivity’ (i.e. the transfer of income from rich to poor reduces measured inequality). Nonetheless, the United Nations Development Programme (2016) has highlighted other weaknesses of the Gini index, including lack of subgroup consistency—i.e. if inequality declines in one subgroup (region, ethnic group, etc.), but remains unchanged in the rest of the population, then the decline in overall inequality is not evident. Also, by design, the Gini index puts equal weight on the entire distribution, thus compromising the impact of variables such as child mortality, illiteracy and income poverty. Furthermore, the main weaknesses of the index as a measure of income distribution are two-fold: it cannot differentiate between different kinds of inequality, and it does not necessarily capture the whole picture on inequality within any given economy.

Even so, the Gini index remains the most widely used single measure of inequality. This does not change the fact that a fully reliable, accurate and easily comparable measure of economic inequality is lacking; indeed, regardless of the specific index employed. But in the absence of robust and comprehensive alternatives, the Gini index is possibly the best that we currently have. Arguably, rather than use or search for a single indicator, one alternative is to use various specialized indicators, including measurement of ethnic inequality, gender inequality, incarceration inequality, and so forth (see Chibba, 2016). A more vigorous agenda is required to supplement the Gini index and other such metrics with data or information that are both robust and complementary. Other than indices *per se*, looking at structural trends (that is, by examining changes in household composition, age structure, industry structure, educational attainment and immigration, for

example) can also yield useful information on inequality metrics and corresponding data. Recent investigations, such as the study by Robling and Pareliussen (2017), reveal the benefits of looking at structural inequality, in addition to other measures of economic, social and business inequality.

The metrics of inequality need not all be quantitative, however. Qualitative information can offer a rich perspective. Narratives and accompanying analysis—for example, by Keefe (2017), Kolbert (2018) and Pilling (2018)—have demonstrated that qualitative perspectives offer a powerful medium for understanding the nature and depth of inequality and inspiring us to seek and pursue solutions. *The Economist* (2017b) has noted recently that ‘powerful ideas, captured in memorable stories, can spread like epidemics, wreaking economic havoc as they go’. And as Robert Shiller, a Nobel laureate and former American Economic Association president, has emphasized, ‘narratives matter’². Nonetheless, quantitative inequality metrics—provided data are based on methodologically sound assumptions, procedures, estimation and analysis—are arguably the preferred choice in virtually all instances of inequality data. Qualitative information has a supporting role to play.

The fundamental importance of metrics and data on inequality is obvious in the following example. As is well known, in many developing countries there is a large informal sector, representing as much as 50% of the national population in some cases. The informal sector covers mainly the poor and those living in rural areas and urban slums. By ignoring the informal sector, the national statistics department overlooks an important segment of the population. Metrics and data on price indices, such as the Consumer Price Index, thus often have a deep flaw. As a result, interventions are planned and policies are made without consulting sizable populations—inequality is endemic in more ways than one in the informal sector as metrics and data offered by the national statistics department is a conduit for poor or sub-optimal decision making on public policies. Sound metrics and full and reliable inequality data are indispensable for designing, implementing, monitoring and evaluating interventions and policies. Quantitative

² The Economist (2017b)

information, more often than not, plays a pivotal role in discussions of inequality.

Rising economic inequality

In recent years, inequality has risen within innumerable countries, developed and developing, and globally (Therborn, 2013: 168–74; Gornick and Jantti, 2013: 16; Piketty, 2014; Shapiro, 2017). To be sure, there is some dissent from this view in the academic literature. Scholars such as James Galbraith argue that it depends on the data set one uses. In his two-decades-long work at the University of Texas, the data sets collected lead to a different conclusion—inequality in the world is not necessarily rising. However, he concedes (Galbraith, 2018: 2) that ‘it is technically possible—and may be the case—that inequality increased in every region’ of the world. As referenced above, there is considerable evidence that inequality is indeed rising within nations and globally (for an in-depth analysis, see Milanovic, 2016; though there is very little recent data). The blame for this rise is often placed on capitalism itself. ‘The grand idea of capitalism’, said Kotler (2015: 29) ‘is that those with capital will apply it to create more wealth that will lead to more jobs and income for everyone. Not only will the wealthy benefit, but their wealth will “trickle down”. All boats will rise.’ As is now widely recognized, this is not necessarily true for several reasons, not least of which are rent-seeking, capital gains by the proverbial and literal ‘1%’, market distortions and the powerful role of the political and business elite. Meanwhile, inequality has also increased significantly in non-capitalist economies, notably China and Russia, in the last few decades. However, in China, note that GDP per person is very high in only 5 of its 33 provinces—in other words, progress in the nation is highly uneven, as remarked by Ravallion (2011) and also as noted in *The Economist* (2016). As reported by us elsewhere (e.g. Chibba, 2011, 2016; Chibba and Luiz, 2011), such a dichotomy is driven in large part by structural inequalities.

Is there a link between inequality and economic growth as well? Over the last 25 to 30 years, the exact nature of the relationship between inequality and growth has become highly contested. Some scholars argue that there is a negative relationship, others have found a positive one, yet others see no

relationship. For instance, Barro (1999) finds no overall relationship; as does Fields (1989); though the tide appears to be changing, as signaled by recent findings by researchers such as Bruckner and Lederman (2015), who confirm that a positive relationship prevails between income inequality and economic growth in poor countries, but a negative relationship exists in high- and middle-income countries.

Pilling (2018) has added a new twist to the discussion, by arguing that the nature of the growth in GDP is important; and, therefore, the crucial question to ask is what, precisely, is the growth for—or rather, what is the growth attributable to? Are there structural factors behind the growth? If a country's economy is growing solely because the rich—the proverbial 1%—are getting richer, then the relationship between growth and equality is illusory. Of course, this manner of thinking is not new in itself as, in the recent past, some leading economists have stated that if rents and rent-seeking are attributed to growth in the economy, then this explains precisely the illusory aspect of growth.

Poverty and inequality

Conventional wisdom suggests that there is a positive relationship between poverty and inequality. And intuitively we know that these two variables are related. However, recent research suggests that no such relationship exists. While poverty has declined in numerous countries around the globe, inequality has actually risen in some of those same countries. Yet it cannot be denied that inequality impacts on the poor, more so than on any other group in society. This is because the poor are already disadvantaged in every conceivable respect and inequality exacerbates the nexus between the two. A related point is that not much is being done to address poverty reduction through inequality-reducing interventions. This can certainly be done and it is simply wrong to ignore possible avenues to inequality reduction such as progressive redistribution. As Paul Segal (2018: 2) of King's College has emphasized, progressive redistribution policies (that is, shifting government resources progressively from the rich to the poor) reduce both poverty and inequality at the same time. Three key points to bear in mind in this regard (Lindert, 2018) are: (1) progressive redistribution has existed for over 100

years, and progressivity has not been reversed since the 1970s; (2) the rise in inequality in much of the world during roughly a half-century has not been due to a net shift in government redistribution towards the rich, despite the lowering of top tax rates; (3) the entire net rise of inequality is likely due to changes in the market economy, such as technological bias, globalization and/or trends in human capital.

But structural inequality also has a critical role to play. South Africa is a case in point. The authors (Chibba and Luiz, 2011) conducted a policy review that concluded with the following key findings: conventional economics has not served the country well—an eclectic and innovative approach is required; progressive redistribution has failed to put a dent in inequality and poverty—interventions such as Brazil’s *Fome Zero* are required (Brazil has both structural inequality and decreasing measures of inequality while poverty has been on a downward trend); new approaches and new paradigms are needed to replace past weaknesses in policy and programming to tackle inequality and poverty in South Africa.

Other noteworthy issues on the poverty–inequality nexus include: metrics of inequality using the Gini index compromise the impact of the income poverty variable as alluded to earlier in our discussion of statistics and the informal sector; and the role of aid in reducing poverty and inequality, which we shall take up later in this paper.

To delve further into our overall theme, we now turn to the theoretical and policy contributions of three modern economists—Anthony Atkinson, Thomas Piketty and Joseph Stiglitz—who are leaders on the subject. Subsequently, our discussions will incorporate selected modern theories and policy implications for social inequality from the viewpoints of three renowned sociologists: Ralf Dahrendorf, Frank Parkin and Anthony Giddens.

Atkinson, Piketty and Stiglitz on economic inequality

Anthony Atkinson (2015) discusses economic inequality in the context of four contributing factors—globalization and technology, market forces and social context, capital and monopoly power, and macroeconomics and people—along with his accompanying Call to Action. Atkinson ultimately

concludes, at length, through a series of policy proposals, that multipronged government intervention is at the heart of the way to tackle inequality. This is conceptually a forte in his work.

However, some (but by no means all) of his policy prescriptions are questionable, and so are the associated practical and moral implications. For example, his proposal calling for rich countries to increase their Official Development Assistance (ODA) to 1% of Gross National Income (GNI) is unrealistic and ‘old school’ (in the sense that ODA is no longer seen as the standard in foreign aid as it was until the 1980s). *Prima facie*, such a call appears to be both moral and laudable. Unfortunately, most countries have not even come close to meeting such an ODA target for more than a half-century. Currently, only six OECD countries barely meet or exceed the organization’s current 0.7% target (OECD, 2015, 2016). Moreover, the world we live in today is totally different from the late 1960s when the target was first adopted—which was 1% initially. Furthermore, on the whole—with the exception of China as a donor—the world today does not promote bilateral foreign aid as the *raison d’être* for development assistance. Ultimately, Atkinson’s stance on ODA was an aberration in a stellar career and academic outputs that focused (in addition to teaching and research) on economics, theories, policy work and inequality.

In 2016, Atkinson pushed his treatise further by advocating a ‘rethink’ of the approach to capital and wealth in three fundamental ways: (i) by focusing on dividends, paid on shares that are purchased through a retirement fund, for low-income individuals (ironically, a predicament which is another form of inequality given that the individual shareholder has ‘no say in the decisions made’ by the company); (ii) by directing attention towards increasing the wealth of small savers through government intervention—i.e. by introducing accounts that guarantee a positive return in excess of inflation; and (iii) by governments looking ‘beyond individual wealth to national wealth, since inequality is also a function of the public’s share of state assets’ (2016, p. 32). These prescriptions converge at the intersection of economics, theory and policy.

Other than policy prescriptions, theoretical configurations by Atkinson (1970), notably his index on inequality, is another forte in his work on

inequality. The foundations of his index are derived from social welfare specifications. Atkinson also uses the concept of equally distributed equivalent income to denote the level of income that, if obtained by every individual in the income distribution, would enable society to reach the same level of welfare as actual incomes. In this regard, Atkinson's measures of inequality are inherently more robust than those expressed by the Gini coefficient. Indeed, on the whole, Atkinson's contributions to the economics of inequality are path-breaking in many respects.

Our second scholar of note is Thomas Piketty. His recent rise in the global academic arena has thrust questions of economic inequality and redistribution of wealth to the forefront of economics—or political economics, as he prefers to refer to economics—with a powerful and creative voice. In his seminal work, *Capital in the Twenty-First Century* (2014), much of which deals with political economy from a historical viewpoint, he presents a scholarly treatise. He laments the dire straits in which we find ourselves with respect to rising inequality, dynastic wealth and the inherent weaknesses of democratic institutions in the twenty-first century. His analysis of inequality shows that widespread inequality of wealth is a global phenomenon: 1% of the world's population already owns 50% of the world's wealth. Income inequality manifests itself in two prominent ways: through capital (which he uses interchangeably with wealth; and note that capital includes rents, interest, dividends, royalties, profits, capital gains, etc., as well as financial and professional capital of firms and government), and through labor (wages and salaries). In addition, Piketty underscores the fact that Old Europe—that is, before the birth of capitalism—was defined by a world of caste. Such a world exists to this day, and it is likely to survive well into the future. Not only is Piketty's work path-breaking, but it also has implications for the study and practice of political economy and sociology.

Is inequality acceptable to Piketty? Regrettably, on this question, he opines (2014: 31) that 'I have no interest in denouncing inequality... especially since social inequalities are not in themselves a problem as long as they are justified, that is, founded only upon common utility, as article I of the 1789 Declaration of the Rights of Man and the Citizen proclaims'. This stance is perhaps understandable as the key results of Piketty's (2014, 2015)

study are three-fold. First, the history of inequality over the last three centuries has been shaped by the interplay of economic, social and political forces. In effect, he rejects any notion of economic determinism. Second, the dynamics of wealth distribution—which are ‘at the heart’ of his book, as he puts it—concern convergence (or reduction and compression) of inequalities and divergence (or increasing levels) of inequality. Convergence occurred in most developed countries between 1910 and 1950, primarily as a consequence of war and policies adopted to address the shocks of war. In comparison, divergence has been the norm in the capitalist state. Piketty’s *tour de force* in his theory is that ‘when the rate of return on capital significantly exceeds the growth rate of the economy (as it did through much of history until the nineteenth century, and as is likely to be the case again in the twenty-first century), then it logically follows that inherited wealth grows faster than output and income’ (Piketty, 2014: 26). Third, from a policy perspective, while Piketty recognizes the necessity of modern redistribution programs founded on the logic of rights (and the moral principle of equal access to education, health and retirement), he nevertheless relies heavily on various forms of taxation as an effective means to mitigate the impact of inequality.

Nonetheless, his study of inequality and wealth is path-breaking in several other ways as well. For example, he shatters the conventional wisdom that inequality decreases over time under capitalism, and he not only meticulously illustrates some of the key drivers of inequality, but also discusses accumulation and distribution of capital, and the prospects for economic growth. Yet his policy prescription to mitigate inequality falls short of being impressive. This is because, as suggested above, he relies almost singularly on taxation—be it taxes on income (e.g. confiscatory tax rates), capital (e.g. global tax on capital), property or inheritance. Piketty’s other unique stance draws from the recognition that redistribution programs in societies must not be based largely on economics (political economy). He puts it thus (2014: 20): ‘the history of inequality is shaped by the way economic, social, and political actors view what is just and what is not, as well as by the relative power of those actors and the collective choices that result. It is the joint product of all relevant actors combined’ (in this regard, see our

earlier remarks on social inequality, as well as in the case study of South Africa, later in this paper). Piketty's views on inequality embrace a healthy dose of eclecticism.

Renowned economist Joseph Stiglitz, a Nobel laureate, is our third scholar. In his treatise *The Price of Inequality* (2012), he offers a robust and multifaceted theory on inequality, along with policy prescriptions. In doing so, he argues that inequality, to a great extent, results from government policies—monetary policy for instance (for a related treatise, see Chibba, 2007). Other public policies also have a hand in contributing to inequality—such as tax on capital gains in the United States and through the forces unleashed by technology and markets. Macroeconomic and tax policies, and the role of inherited wealth, for example, reflect the interests and ideologies of the top 1% of income earners in the United States. Stiglitz's 'central argument' on inequality focuses on questions of economics, society, politics and ethics (especially fairness, equality and opportunity). Income determination at the top is not based on merit—that is, on an individual's contribution to society—but rather on rents, which take many forms, including transfers and subsidies from the government, laws that make the marketplace less competitive, poor enforcement of existing competition laws and a business climate where corporations take advantage of others or pass costs on to society. Rent-seeking therefore exacerbates inequality, while also resulting in slower growth. Put differently, rents and rent-seeking do not produce wealth but help to amass great wealth in the hands of the richest 1% in society, while also being a burden on the economy and society.

In our earlier discussion on the connection between growth and inequality, and with reference to Pilling (2018) in particular, we noted that he asks the question 'what precisely is all the growth for?', and alluded to the notion that, if growth is attributable essentially to the rich getting richer, while the rest of society is working harder and harder just to maintain its living standard, then growth is not real, it is illusory. Within this realm of reasoning, we have also suggested a link to rents and rent-seeking—something that Stiglitz and Piketty have otherwise argued at length as resulting in weaker growth while promoting inequality.

Additionally, Stiglitz has argued that while market forces help shape the degree of inequality, government policies and private sector interventions shape those market forces. It is a vicious circle, he says. He also posits that the political system appears to be failing as much as the economic system: ‘Given a political system that is so sensitive to moneyed interests, growing economic inequality leads to a growing imbalance of political power... and the two (politics and economics) together shape, and are shaped by, societal forces—social mores and institutions—that help reinforce this growing inequality’ (Stiglitz, 2012: xx).

As a result, Stiglitz sees the need for a comprehensive economic reform agenda that collectively fosters efficiency, fairness and opportunity. (Questions of efficiency deal with economic, operational and management factors primarily; but issues of fairness and opportunity have a much broader base that extends beyond economics, sociology and socioeconomics, to politics, ethics and business management.) Specifically, Stiglitz’s comprehensive agenda focuses on seven key thrusts: (i) reducing rent-seeking and levelling the playing field; (ii) tax reform to address, along with other measures, the inherent weaknesses and flaws in the current capitalist systems (given that there are many shades of capitalist systems today); (iii) helping ordinary folk (in effect, a call to moral action); (iv) tempering globalization; (v) restoring and maintaining full employment; (vi) entering a contemporary form of a ‘social compact’ that advances social equity—for example, supporting workers’ and citizens’ collective action and advancing affirmative action, to eliminate the legacy of discrimination; and (vii) restoring sustainable and equitable growth. Stiglitz also proposes 21 comprehensive, long-term economic and policy components to these thrusts, encompassing widespread reform that includes the financial sector, competition laws, corporate governance, bankruptcy laws, (ending) government giveaways, (ending) corporate welfare and subsidies, (creating a) progressive income and corporate tax system, and other initiatives that tackle, *inter alia*, the social, fiscal, moral and environmental deficiencies and loopholes in capitalist systems (especially as found in developed economies, with the USA as a case in point). Furthermore, Stiglitz highlights labor market and housing issues as ‘immediate’, and his additional focus on a

political reform agenda constitutes a complementary recommendation towards a comprehensive approach to the subject. In this respect, Stiglitz also contributes to the ongoing debates on modern capitalism and its evolution.

Stiglitz is a neoclassical economist—‘new Keynesian’ to be precise, according to Lavoie (2014)—and it should be obvious that he also leans towards an eclectic perspective in his analysis and viewpoints. Thus, it is certainly not too far-fetched to say that his analysis and prescriptions are also part of a ‘third way’, a sort of *mélange* of neoclassical and other paradigms in economics. His views certainly extend beyond neoclassical economics. In his critique of neoliberalism and market fundamentalism, for example, he has declared that markets are not self-correcting, do not allocate resources efficiently and do not serve the public interest well. Importantly, his comprehensive agenda and accompanying long-term proposals to address inequality are a departure from the status quo.

Note, however, that all three gurus of economics rely on quantitative information—inequality metrics and data—in their discussions of income, wealth and income distribution, and related issues, in their respective treatises on inequality.

Dahrendorf, Giddins and Parkin on social inequality

The *classic* theories of social inequality cover the scope and timeframe from Marx and Engels (before 1900), to Weber and Durkheim (1900–1920), to structural functionalism (1920–50). Contemporary theories and conceptual constructs—such as those concerning corporate culture (Willmott, 1993), organizational performance and ‘excellence’ (e.g. Ouchi, 1981; and Peters and Waterman, 1982) and management control (e.g. Lebas and Weigenstein, 2007), draw their inspiration from or reflect the legacy of the scholars of classic theories. The modern theories of social inequality were propounded by innumerable scholars including Judith Butler, Ralf Dahrendorf, Paul DiMaggio, Michel Foucault, Anthony Giddens and Frank Parkin, all of whom espoused either neo-Marxist, neo-Weberian, or past and present conceptions of class, power, the capitalist state and the modern corporation. There are important scholars who are left out of this brief list and long timeline, the purpose of which is not to establish an ‘honor roll’ of the key

players in the theoretical domain of studies on social inequality, but to convey some semblance of the scope of work by some of the leading scholars from the nineteenth century to the present. Clearly, the amount of literature covered on social inequality during this long period is also beyond the scope of this paper. Instead, we shall provide a summary of some of the key modern theories on social inequality, along with their policy implications, for selected scholars—namely, Ralf Dahrendorf, Frank Parkin and Anthony Giddens, who have contributed significantly to the current perspectives on the subject.

We begin with Dahrendorf, whose early arguments on the nature of social inequality have left an imprint on virtually all of his works for several decades (since 1959, when he wrote *Class and Class Conflict in Industrial Society*). In asserting that social conflict, consensus and integration are central to progressive social change in modern societies, he posits that neither Marxism nor structural functionalism offer adequate perspectives on society and inequality. At the same time, he expresses a fear that too much equality could pose dangers for society and progress (Dahrendorf, 1979, 1997). Notwithstanding, he does share some ideas with structural functionalists, including a belief in the positive role played by post-Second World War economic and political institutions. As a result, his theory calls for intervention by government. For example, he sees the role of the state as critical—in what we referred to earlier as progressive redistribution—in areas such as education, welfare programs and economic policy. Indeed, Dahrendorf views modern government as important to social welfare programs and taxation in efforts to redistribute wealth from the rich to the poor. This viewpoint is similar to that of the contemporary economists that we discussed above, with Stiglitz being the sole exception.

Frank Parkin, in comparison, is a neo-Weberian sociologist whose overarching conclusion in his works is that all manifestations of structural inequality should be examined using a single, largely Weberian, framework in which power plays a key role (Parkin, 1972, 1979, 1983). However, he pushes the notion of power further by combining it with social closure or how some social groupings restrict others from access to resources and opportunities. The two basic forms of social closure that Parkin describes are ‘exclusion’ (by which dominant factions withhold power from or deny it to

subordinates) and ‘usurpation’ (by which subordinates attempt to gain some power back from dominant factions). Exclusion, he argues, is established in law and incorporated in rules and regulations, so is often supported by public agencies or branches of the state. In this way, people who hold power through the state’s institutions play a key role in modern configurations of systems of inequality. Parkin’s viewpoint on conflicts over closure is evident in three modern conflicts over access to resources, power, opportunities and justice: the struggles between First Nations people and the rest of society in North America—in particular, over equality and justice, access to (and ownership of) natural resources, and access to opportunities; the deplorable conditions and repression that the ‘blacks’ were subjected to during the apartheid era in South Africa; and the imbalance of power between men and women and exclusion of women from holding power in many nations to this day. However, Parkin argues that the state, in this sense, is therefore without power of its own; that power resides with the key actors in the state. And in Parkin’s assessment, neither pure capitalism nor traditional socialism offer an attractive path towards equality. Instead, social democracy (e.g. capitalism as found in Scandinavian countries) offers the most attractive option on social, economic and political configurations that best address inequality. In other words, the policy implications of his theory stem from the pursuit of social democratic systems of governance and this arguably holds significant merit today.

Anthony Giddens is also a leading thinker in the study of both contemporary social inequality and sociological theory. He has reviewed and reconsidered several areas in the study of social inequality (1994, 2000), including conceptions of the capitalist state, the role of class and power, as well as several related issues—for instance, with respect to ‘corporate culturism’ as explained by Willmott (1993). Much like Parkin, however, Giddens sees a ‘third way’ between capitalism and socialism. From a policy perspective, he outlines four basic types of institution and connects them to various social structures. These include economic, political, symbolic (in respect of religion, education and the media, for instance) and legal-security institutions (legal, military and police) that function within broad structures. For example, economic institutions operate mainly in the economic structure

of the state and society, and this involves allocation functions or the domination of material phenomena. Again, as with Parkin, Giddens (1994) views the state as a conduit for channeling the power of others. Furthermore, while he strongly believes in taxation and redistribution programs as appropriate policy instruments to address inequality, he argues that ‘welfare state’ programs in capitalist governments have met with only minor success in tackling inequality. Instead, he advocates strong efforts by the state in providing employable skills and job retraining. Beyond these prescriptions, Giddens (2000) believes that some inequality is acceptable, especially if it is based on equality of opportunity. This position of Giddens is generally similar to that of Piketty.

Further discussion

The discussions thus far leads us to question whether inequality is really undesirable. We cannot move forward to address possible approaches to inequality without first answering this question. The six scholars (economic and social) are split evenly on this question. Atkinson, Stiglitz and Parkin would answer affirmatively, especially in the face of rising and extreme inequality within countries and at the global level. In comparison, Piketty (despite his theoretical concern about inequality, he categorically states that ‘I have no interest in denouncing inequality’), Dahrendorf (who retorts that ‘too much equality poses dangers’) and Giddins (‘some inequality is acceptable’), respond with no or a qualified no.

A related point concerns metrics and data on economic inequality. Galbraith (2014, 2018) provides a scathing criticism of Piketty and collaborators (Atkinson included), focusing on inequality metrics and data, which he argues are ‘sparse, inconsistent and unreliable’ in Piketty’s seminal work of 2014 and his (and Atkinson’s) leading role in the development and presentation of the World Inequality Report 2018. As we have already noted, the reliability and robustness of metrics and data are a major concern in discussions of inequality. Galbraith, who has led the University of Texas Inequality Project (UTIP) for over twenty years, has his own data set which he believes is superior to that offered by Piketty and collaborators. It lends itself to different analysis and conclusions, and thus to a repudiation of

Piketty's work to some extent. This point is raised not to take sides, but to emphasize two things: first, there is dissent among economists emanating from Piketty's views; and second, issues of metrics and data reliability have moved to the forefront of discussions on inequality.

Another interesting question, that was raised earlier under Atkinson's contributions to the global conversation on inequality, is whether aid, or development assistance, contributes to reductions in inequality. The answer to this is tied to the question of poverty. The United Nations, international financial institutions (including the World Bank), certain regional organizations—such as the Organisation for Economic Co-operation and Development (OECD) and the Commonwealth Secretariat—as well as numerous non-governmental organizations (NGOs), have consistently recognized poverty as the key problem in international development. Research on the link between poverty and aid also addresses the link between aid and inequality. Is aid a necessary precursor to reducing poverty and inequality? This is a highly contentious issue and there are two dominant camps. One of these is led by Jeffrey Sachs (2005) who sees (foreign) aid as the key to tackling poverty and inequality. The other camp is led by William Easterly (2001, 2006) who argues that aid does more harm than good. In short, the jury is still out on the role of aid in reducing poverty and inequality.

The main lessons to be learned from the three economic gurus (and those who dissent from their views) are manifold. First, multipronged and multidisciplinary approaches are necessary to address inequality, which is, for all intents and purposes, undesirable. Second, redistribution programs and taxation are complementary operational, programming and policy instruments. Third, policy approaches require interventions that are comprehensive—that is, interventions should tackle economic, political *and* societal hurdles. Fourth, and generally, a reform agenda needs to be adopted and implemented that champions (in addition to the need for reliable metrics and data) five policy and program thrusts: efficiency, fairness, opportunity, representation (through multipartite stakeholder engagement, for example) and transparency (to promote democratic principles and to improve decision-making systems). The latter two thrusts are extrapolated largely from the collective viewpoints of the three gurus of economics, but all of these

‘lessons’ are also supported by earlier research by us (see, for example, Chibba and Luiz, 2011). The striking caveat in the works of these economic leaders is that BEc, and heterodox economics as well, are overlooked. This is perhaps understandable as BEc is in its early stages of development and expansion, while heterodox economics is devoted largely to theory and theoretical frameworks.

The focus on social inequality by the three sociologists is on six main areas: power (who holds it, why and its consequences), conflict (and consensus and integration), class (as an important aspect of differentiation), exclusion (as part of domination), access or lack of it (to economic, social, political and institutional resources) and uneven distribution of goods, services and opportunities, in societies. Thus, public and private sector policies, government interventions and accompanying instruments and measures to address inequality—whether through taxation, redistribution programs, proportionate representation or other means—feature prominently on the policy and programming fronts. The latter areas represent where the greatest overlap between social and economic inequality manifests itself in policy making.

Structural inequality has a key focus in Parkins’ work, and in Stiglitz’s as well. To achieve gender equality, for instance, one might believe that laws are the first step; not as much the interventions emanating from politics, economics or sociology, which often (though not necessarily always) have a longer gestation period, and require a sustained level of support, to yield concrete results. Witness, for example, both the gender parity law which was enacted in 2000 in France, and the seven years it took to make giant ‘political’ strides in gender equality in the French parliament (which, today, is 38% female, nearly 50% more than in the previous elections). Note, however, that despite gender equality being designated by President Emmanuel Macron of France as the *grande cause* of his five-year term, overall progress in addressing inequality has been slow in areas other than law.

This predicament can be explained by BEc, which sheds new light on the psychological, cultural and social basis of human decision-making; also by evolution (‘hard-wired thinking’), and the dynamics of social and cultural change. As Karla Hoff (2017) of the World Bank notes, in dysfunctional social

institutions discrimination by race, gender and caste can persist long after these scourges are abolished by law because they have a cognitive basis. But there is a missing link here that Hoff ignores: in addition to endogenous variables, exogenous variables also play a critical role. Chibba (2007, 2012) has explained how values, norms and other cultural dimensions of decision making, which can manifest as endogenous, exogenous or both, can be pivotal in how people react to policy and programming initiatives. The lesson here is that where standard economic, social, legal and political interventions fail, BEc—which is based on rational and irrational decision making—can be successful. Cass Sunstein (a non-economist), argues that human beings are not irrational but imperfect. We disagree. Human beings are usually rational but sometimes irrational—and this can lead the way to understanding what is transpiring and pave the way to suggesting complementary approaches. Two examples illustrative of such behavior follow.

At Starbucks (see Chibba, 2015), for example, customers act irrationally in agreeing to pay for relatively overpriced items (coffee, other drinks and food) of mediocre caliber. This is especially poignant when some of the customers (e.g. students and those with a relatively low or even modest income) can ill afford Starbucks products on a frequent basis. Such ‘irrational behavior’ is driven in part by exogenous and endogenous factors that are part of BEc. The second example is drawn from ‘nudge economics’. Commercial banks sometimes use a nudge to steer decision making and economic behavior of certain consumers. The nudge in this case involves advertising to urge the poor, or otherwise low earners, to borrow from a commercial bank or non-bank financial institution given the ‘*no matata*’ (worry-free) ethos prevalent among the poor in some countries such as Botswana and South Africa (Chibba, 2008). This is an example of rational behavior that aggravates inequality. Solutions to tackle such inequities include educational programs, and regulating unethical advertising. Indeed, discussions of inequality in business and related contexts can project a complementary light on consumer finance and neoclassical economics and show the way forward to remedial action.

A related point, and an important one at that, is that statistics do not cover the poor and rural segments of the population in many developing and

emerging market economies, and as a result monetary policy, public policy and regulations are compromised. Ameliorating statistics is therefore of critical importance. The link between business, economics and society is indeed robust, as we shall now discuss.

Business Inequality

We begin with a definition and examples. Business inequality is inequality that emanates from a business or directly related context—be it management, organization or in terms of complementary perspectives arising from other social sciences (especially economics, politics, sociology and interdisciplinary perspectives, as in governance matters). Examples include: regulations that forbid certain businesses from operating in certain markets (or lack of freedom to enter certain markets based on ethnic origin, geography, nationality or other such factors); the treatment of different actors (e.g. consumers *versus* employees) as unequal in corporations, large and small, and especially in the service industries (where there is a high level of interaction between customers and employees); and the impact of a regulatory system that essentially treats a business (and its executives) as immune from prosecution in the event of poor business decisions that jeopardize the integrity of an entire economic system—e.g. as was the case during the dual (economic and financial) crisis of 2008–9. Another example is unethical behavior by banks (e.g. to exact higher and higher volumes of sales) that involves taking unfair advantage of, or imposition of unnecessary risks on, customers and shareholders.

The study of business has its genesis in economics, sociology and philosophy, dating back especially to the eighteenth and nineteenth centuries (and even to the time of Plato). As Adam Smith (1723–90) is renowned as ‘the father of economics’, it is therefore natural to assume that he had a critical role to play in the study of business matters as well. Indeed, Adam Smith was one of the early leaders on economic and business thought, along with leading thinkers such as David Ricardo (1772–23) and James Mill (1773–36). Of philosophers (as opposed to economists *per se*), perhaps the most robust writings on social and economic thought were by scholars such

as John Locke (1632–1704) and Jean-Jacques Rousseau (1712–78), both of whom wrote (perhaps most notably) on social contract theory; with Rousseau also being the author, in 1754, of ‘A discourse upon the origin and the foundation of inequality among mankind’ (original title in French: *Discours sur l’origine et les fondements de l’inégalité parmi les hommes*).

In the contemporary period, a useful starting point is the work of the late Milton Friedman, an economist and Nobel laureate, who stated in *Capitalism and Freedom* (1962) that the business of business is business and that a company should have no social responsibility because its only concern is to generate and increase profits for shareholders. This opinion has been increasingly challenged (Servaes and Tamayo, 2013; Griffin and Prakash, 2014; Hahn, Kolk, and Winn, 2010). There is today a wider acceptance of the broader role and responsibility of business. For example, leading business schools now offer compulsory courses on ‘business, government and society’, or a variation thereof, that emphasize that business is not conducted in a political, economic and social vacuum but is deeply embedded in the broader institutional environment. This still leaves room for interpretation of the role that business plays, or should play, within that environment but at least it recognizes this embeddedness, which can have profound implications for government, society, economy and management.

Between the poles of those who take the Friedman view and those who argue that business needs to be a force for good, and that shareholders are just one of a broader group of stakeholders to which business needs to be accountable, lies a rich tapestry of hybrids. Porter and Kramer (2011), for instance, maintain that business needs to create ‘shared value’, that the competitiveness of a company and the health of society are mutually reinforcing and that capitalizing on these connections can unleash waves of growth and innovation. This debate has a central bearing on how one perceives the relationships between the various stakeholders and inequality. One interpretation is that inequality is a social phenomenon that lies within the remit of public policy and that it is not a fundamental concern for business. Another view is that business cannot isolate itself from these broader trends and that it fundamentally impacts inequality and can do so both positively and negatively.

There are several ways in which business contributes towards the growing problem of inequality. First, as regards wage disparities, the International Labor Organization (ILO) (2015) reports that inequality starts in the labor market and that changes in the distribution of wages and employment have been key drivers of recent trends in inequality. Spain and the USA are two countries where inequality between the top and bottom 10% increased the most: changes in these two factors accounted for 90% of the increase in inequality in Spain and 100% of it in the USA. A plethora of data confirms the growing gap within the business world between senior management's pay and that of its workers. In the USA, for example, the best-paid 1% of workers earned 190% more in real terms in 2011 than they did in 1980, while the wages of the middle fifth fell by 5% (*The Economist*, 2015). Based on chief executive officer (CEO) compensation data from Securities and Exchange Commission (SEC) filings, and median total worker compensation salary reports, the average CEO pay in Standard and Poor's (S&P) 500 listed companies was US\$13.8 million per year, the average median worker's pay was about US\$77,800; and the average ratio of CEO pay to median worker pay was 204. The company with the highest ratio of CEO pay to median worker pay had a pay ratio of 1,951. At both McDonald's and Starbucks, it would take the median worker more than six months to earn what that company's CEO makes in a single hour (Glassdoor, 2015). Wage disparities are often the first level of inequality at organizations.

Other studies have reached a similar conclusion. Kiatpongsan and Norton (2014) find that American CEOs make more than 350 times the average worker's pay. In Switzerland, the country with the second largest CEO-to-worker pay gap, chief executives make 148 times the average worker's pay; in Germany, it is 147 times; and in Spain, 127 times. A further contribution to wage inequality is confirmed by examining gender wage gaps in the corporate world. Even after accounting for wage gaps as a result of 'explained' components linked to experience, education, occupational category, economic activity, location and work intensity, the 'unexplained' part (the wage penalty that may capture discriminatory practices based on gender) continues to exist in a large number of countries in both the developed and

the developing world (Card, Cardoso and Kline, 2015; Cardoso, Guimarães and Portugal, 2016; ILO, 2015; Servaes and Tamayo, 2013).

The second way in which business contributes towards the growing problem of inequality is with respect to transnational capital. In an age of transnational capital, it is increasingly possible for corporates to engage in complex tax avoidance by shifting profits and expenses across locales, thus undermining the fiscal capacity of states to undertake development policies, as well as to address inequality. Whilst this avoidance is not illegal as loopholes exist in law and companies are merely taking advantage of the situation, it has nevertheless brought into question the ‘fair’ contribution of a company: where it derives its profits and how they impact on inequality. Otusanya (2011: 316), writing about multinational corporations (MNCs) in Nigeria, argues that the drive for higher profits by MNCs has influenced tax evasion and avoidance at almost any cost:

Stimulated by profitability, and intense competition and pressure to increase earnings, capitalist enterprises constantly seek new ways of boosting their earnings by developing complex structures and novel ways of increasing their profits by exploiting ambiguities in the law. The evidence shows that tax havens and offshore financial centers, shaped by globalization, are major structures facilitating the anti-social tax practices of MNCs. The findings also suggest that the local business elite and local professionals are key actors in facilitating these anti-social tax practices in Nigeria for their own financial gain.

These MNC practices also shift the tax burden to less mobile capital and less well-off citizens, and thereby undermine the Nigerian social fabric and exacerbate inequality.

Third, these same MNCs are often the first to cry foul if governments try to ameliorate the situation through measures to address local levels of inequality through more redistributive public policy (or progressive redistribution, as discussed earlier). A decade ago, *The Economist* lamented South Africa’s high level of inequality, saying that it was unsustainable and would lead to instability, and that the government needed to ‘do something’. It mentioned high levels of land inequality as one such example. Yet a few years later, when the South African government attempted a land redistribution program through legal means with compensation, the same journal accused South Africa of engaging in Zimbabwe-like land grabs.

Likewise, after bailing out the banking sector with public funds, Britain has sought to tighten banking controls, and several large banks have threatened to move their business out of the country to 'friendlier' nations as a result.

Moreover, MNCs are blamed for encouraging inequality by focusing on short-term results. This manifests in several ways, from paying excessive dividends instead of investing in business expansion and job creation, to not investing sufficiently in developing skills but rather headhunting skills as they are needed. In developing countries, structural unemployment is a recurring phenomenon with surpluses of unskilled workers co-existing with skills shortages. Instead of investing in skills development, MNCs are accused of poaching the best skills or importing them through expatriate deployment instead of embedding themselves and working on a long-term investment in local skills development. Such hiring practices may also exist where biases are manifest in hiring as MNCs engage in 'homophily' (Kleinbaum, Stuart & Tushman, 2013; Lee & Reade, 2015). This may appear as discrimination based on gender, race, ethnicity, religion, sexual orientation, etc., which perpetuates existing power relationships and its associated income streams.

Corporates do also contribute positively towards a fairer, more equitable society, however. They do so by creating job opportunities, by investing in skills that facilitate labor mobility, through innovation and research and development (R&D) they can create new markets which result in more jobs even as old ones are disrupted, and through their social development activities, which have grown substantially in recent years. Research has examined these influences and their impacts from various perspectives including the role of corporate social responsibility (Haley, 1991; Hond, Rehbein, Bakker & Lankveld, 2014; Tang, Hull & Rothenberg, 2012; Marano & Kostova, 2016; Morgenroth and Luiz, 2016), innovation and social entrepreneurship (Crilly, 2013; George, McGahan & Prabhu, 2012; Haynes, Hitt & Campbell, 2015; Zahra & Wright, 2015), and the role of business in opening up opportunities at the base of the pyramid (Ansari, Munir & Gregg, 2012; Hall, Matos, Sheehan & Silvestre, 2012).

Business is also at the forefront of social change. In South Africa, at the height of the AIDS epidemic, it was business that reacted first by rolling out

comprehensive HIV/AIDS training programs in the workplace, and many firms introduced their own anti-retroviral programs not only for their workers but also for workers' families. This 'shaming', if you wish, led to the South African government finally introducing its own anti-retroviral program a few years later. This is one form of convergence between the actions of business and government through policies and interventions to address inequality.

But a business can also find itself in a bind. It may have invested in a country because of cheap labor or lax environmental laws and now find itself in a social and ethical dilemma. Paying higher wages or respecting more stringent environmental laws may work against the rationale for locating in many poor countries.

The manner of association also exists in the reverse direction, as inequality affects business, economics and government. At the macro level, there is some evidence of a remarkable relationship between inequality and growth (Balls, 2016; Barro, 1999; Bruckner and Lederman, 2015; Ferreira, 1999; Forbes, 2000; OECD, 2014; Ostry, Berg and Tsangarides, 2014; Stiglitz, 2016). However, the nature and extent of the relationship is a subject of much debate. According to Bruckner and Lederman, for example, greater inequality tends to result in weaker economic growth in high- and middle-income countries; but raises economic growth in poor countries. Conversely, Stiglitz and Piketty have posited that, overall, excessive inequality tends to result in weaker economic growth (or no real growth at all) due to rents and rent-seeking.

Luiz (2016) has argued that inequality reduces the size of the effective market by limiting the consumption capacity of a society. The smaller market reduces the economies of scale and the outcome is higher average unit costs, and results in some projects not being viable because the market is not large enough. Inequality also results in skewed access to human capital, which limits the ability of all sectors to recruit the necessary skills and thus raises the cost of doing business.

Note however that while high levels of inequality may indeed contribute to slower growth, such a negative relationship may also lead to rising levels of social instability, which in turn can put pressure on public policy. This can create an environment of political and policy uncertainty—thus, policy

drift—and higher levels of country risk. Countries with high inequality often lack a middle class, in the sense that it is in a disadvantaged position, and this may result in dramatic policy switches after any change in government as elections swing from left to right and back again with no middle ground in the forming of consensus (Luiz, 2016). The *Zambian* case illustrates swings from nationalization of the copper mines to their privatization and then attempted re-nationalization. Or in the case of *Argentina*, over the last century the swings from conservatism to populism continue to this day. Business can be viewed as part of the problem perpetuating this inequality and thus making it a target of social activism.

If viewed from the perspective of BEc, business offers an interesting context for the study of decision making and inequality with focus on the use of nudges and mental quirks (status quo bias, for instance)—as can be explained and understood, for example, in the case of Starbucks. A friend of ours asked us ‘so what’s the key economics or business lesson in brief from patronizing Starbucks as a customer?’ At Starbucks, customers buy at arguably inflated prices products of mediocre quality (though service is usually good). There are two parts to the answer. If one believes that humans are rational, then you might say that there is a rational trade-off as customers will overlook the inflated prices and the mediocre quality of the products, to enjoy what Starbucks refers to as the ‘Starbucks experience’. This perspective embraces the neoclassical economic assumption of the ‘rational economic man’. The second part of the response is that behavioral economists will instead say that humans do not always behave rationally. In fact, humans are often irrational and therefore ‘misbehave’ and miscalculate. The average customer who frequents Starbucks is perhaps irrational. And, in particular, this is especially true of students and median-to-low-income customers who can least afford to regularly visit a Starbucks café. According to behavioral economists, there is a cognitive, cultural and evolutionary basis to this behavior (as we are ‘hard-wired’ through evolution, for instance).

Previously we noted that business inequality can emanate from various contexts, including earnings disparities, gender bias and cognitive aspects of consumer choice. Another perspective on inequality can be perceived by looking at business management and organizational theory. For the purpose

of illustration, let us take the case of Starbucks again. As Starbucks is a public company, it is responsible to its shareholders and the bottom line is the reason it is in business. More importantly, Starbucks is a Partner-centric organization ('Partners' are Starbucks' employees and suppliers). This means that through its Partner network it extends its corporate culture and business rationale—even as an 'illusion' to customers that it is a customer-centred business, when it is only secondarily so. As such, inequality is enshrined in the organization through intra-organizational constraints and extra-organizational outcomes, which foster two distinct 'micro' levels of inequality: between baristas and senior management in terms of pay, benefits, stature and rights; and between Partners and customers. This rationale, and understanding of inequality, positions the theoretical perspective on neo-bureaucracy, and the organizational *raison d'être* in service-based global business, beyond the purely profit-making and efficiency criteria, and indeed beyond the obvious intra-organizational linkages. In this way, convergence occurs between organizational culture, global business and inequality, in café businesses such as Starbucks.

The nature of this form of business inequality, derived as it is from the business model of the corporation, cannot be tackled as other forms of inequality are. It is ultimately viewed as benign. And it also raises the question as to whether inequality is necessarily undesirable. This question was posed earlier with reference to the six gurus (of economics and sociology). Some inequality is not necessarily bad, undesirable or a scourge to society and organizations. It is both unrealistic and utopian to strive towards a world devoid of inequality. The question is where to draw the line between what is acceptable and what is not. At this juncture, we would state that extreme inequality, poignant aspects of structural inequality and the global trend towards increasing levels of inequality, both within countries and internationally, are worrisome and undesirable, and require addressing.

South Africa as a case study

South Africa is a compelling case from which to draw lessons on inequality. But why South Africa? The first reason is that it has one of the world's highest levels of income inequality (and one that has persisted for a long time) as

measured by the Gini index (World Bank, 2014, 2016, 2017, 2018). Second, South Africa has the legacy of apartheid and this offers a useful context for analysis, study, comparison and the potential to offer lessons. Third, South Africa is in dire economic straits (World Bank, 2016, 2017; Trading Economics, 2018): its cumulative average annual rate of growth of Gross Domestic Product (GDP) for the period 2008–17 has been a dismal 2.0% or less (shrinking to an annualized –1.2% in the first quarter of 2016, before recovering slightly in 2017–18); the unemployment rate, in 2017–18, was nearly 28% of the labour force, and remains there; and the Gini index continued to rise in the post-apartheid period—from 54 in 1994 to 63+ in 2014 (World Bank, 2017, 2018). Downgrading of the country’s sovereign debt to junk was completed before the end of 2016 (*The Economist*, 2017a). The election of Cyril Ramaphosa as President in February 2018 is cause for some optimism, however. For all of these reasons, South Africa is an especially appropriate case to discuss and draw lessons from. In addition to public policies, the private sector has been influential in the country’s economy, society and politics. Indeed, business has played a key part in the development of the country’s economic model, and changed its approach, on several occasions, over the past century-and-a-half as discussed further below.

The historical context is critical to understanding inequality in South Africa. We can broadly identify three phases. Each phase offers perspectives on inequality and the role of business as a development partner and either as an agent of change or in perpetuating the inequities of the status quo.

In the first phase (i.e. the apartheid era up until the 1970s), business was complicit with the government’s policy of racial segregation and the exploitation of cheap ‘black’ labor. Parkin’s concepts of social closure and exclusion are clearly relevant here. The mining industry, in particular, was built upon this edifice of economic inequality, social closure and exclusion, and it was actively involved in promoting public policy which forced ‘blacks’ off their land to create a ready supply of (cheap) labor. The neoclassical economic model was thus one of deliberately unbalancing the economy and promoting inequality to fuel economic growth. This model also perpetuated deeply immoral action.

By the late 1970s the growing costs of apartheid began to outweigh the benefits which were accruing to capital and the second phase begins. Lipton (1985: 227) states that there was a 'growing convergence of views among capitalists about the rising costs and inconvenience of apartheid'. She argues that the reason for this was the diversification of the interests of many capitalists, the increasing capital intensification in all sectors which required foreign investment capital, the need for more skilled labor and larger markets, and the increasing international hostility towards apartheid as an immoral system that posed a threat to the external economic interests of capitalists. Although business was initially complicit in the construction of a cheap wage economy, when over time this system resulted in institutional misalignment with the next phase of business and economic development, alternative options were sought. Some firms (though certainly not all; and likely a small minority) adopted the Sullivan principles in defiance of the apartheid system; these included non-segregation of the races in all eating, comfort and work facilities; equal and fair employment practices for all employees; equal pay for all employees doing equal or comparable work; initiation of and development of training programs to prepare 'blacks', in substantial numbers, for supervisory, administrative, clerical and technical jobs; increasing the number of 'blacks' in management and supervisory positions; improving the quality of life for 'blacks' outside the work environment in such areas as housing, transportation, education, recreation and health facilities; and working to eliminate laws and customs that impede social, economic and political justice. The Sullivan principles, at least in theory, embraced the notion of an interdisciplinary nexus and eclectic perspective to address inequality. By the 1980s, the business sector had become an agent for sociopolitical and economic change, and actively pushed government towards a more inclusive political model. Domestic business met with the banned African National Congress and foreign capital withdrew in a massive show of disinvestment.

The third phase is associated with the post-apartheid period (since 1994). During this period the relationship between business and inequality becomes more complex with business maneuvering to protect its interests. It lobbied during the constitutional negotiations to ensure that its property

rights would be entrenched and that a future government's ability to undertake wholesale redistribution of assets would be limited. In return, it supported the expansion of the capitalist class to include a new group of 'black' industrialists, by co-opting them through large 'black' economic empowerment schemes. The underlying flaw in this approach was that only political power rested with the new ('black') elite. Also, on one hand, business successfully pressured the new government to adopt stringent macroeconomic policy and reduce debt levels. On the other hand, an ironic situation arose with a new left-wing government adopting conservative economic policy within a neoclassical economic framework. This ensured a favorable business climate but has seen inequality actually worsen since 1994 (World Bank, 2014, 2016, 2017, 2018). Also, during this time the effects of growing inequality on business and society came to the fore. One noteworthy case was 'Marikana', but there have been many others though not quite as dramatic.

Business, meanwhile, came under increasing pressure from social and political activists for being part of the problem and for fostering inequality by resisting efforts for redistribution. The business sector was accused of pushing for a political transition which brought 'blacks' in but did so at the price of excluding them from economic power. This was social closure and exclusion in what appeared to be a new context but was actually more of the same (as the saying goes, *plus ça change, plus c'est la même chose*). Today, a quarter-century after the collapse of apartheid, senior management positions still represent old apartheid-era networks. Thus, several sectors that rely on relatively low wages have seen growing turmoil and labor unrest. Business has resisted the labor sector's demands, arguing that higher wages (or hikes in the minimum wage) are not affordable; and if higher wages are offered across the board, there will be job losses or capital will flee the country.

Apropos minimum wage (hikes) and the fight against inequality is a matter that policymakers are grappling with currently in many countries. A brief look at other contexts would therefore be helpful. Messina (2018) has highlighted the following with respect to Latin America: first, during times of strong economic growth, minimum wage hikes can help reduce inequality

whereas at times of slow growth or during recessions, the result is that people (employees and employers) resort to informality in transactions and increasingly fail to comply with the law. Second, boom years do not necessarily result in a dramatic decline in inequality though there are exceptions (e.g. in Brazil between 2003 and 2012 the decline was a strong 20%). Third, countries such as Peru and Paraguay showed strong declines in inequality during the 2000s without increases in the minimum wage. Other factors, such as strong demand for unskilled workers and reductions in pay differentials (formal *versus* the informal sector), for instance, played a significant part in inequality reductions. Nonetheless, minimum wage hikes can often help and timing is crucial as well (with respect to whether it is a period of significant growth, no growth, or the country is in a recession). To reiterate, the South African economy has been in dire straits for numerous years.

The demand for ‘fair’ wages for workers in South Africa, with no increases in wages in sight, has fueled harsh protests against business. Part of the problem is also that stakeholder consultations are normally lacking. In such an undemocratic context, revolt has resulted on various fronts in South Africa—a form of ‘usurpation’. During the campaign for free university education in 2015–16, for instance, business was attacked for not investing sufficiently in the development of human capital. Banks were targeted for not making sufficient loans available to ‘black’ students. In towns and cities where government service delivery is inadequate, local business has been targeted for not pressuring government and for not using the leverage it has to force changes. As a result, the private sector is increasingly seen as being complicit in perpetuating inequality.

Growing instability has, in turn, affected the policy environment where talk of nationalization made it back into policy agendas in recent years (i.e. under the Zuma regime). The uncertainty has resulted in falling investment levels and seen South Africa enter another economic crisis. Since 2018, the government of Cyril Ramaphosa has attempted to change the poor business environment and it has been trying to attract US\$100 billion in investment to revive the flagging economy (Cohen, 2018).

Nonetheless, policy drift and past failures of both neoclassical economic policies and social policies have resulted in a situation where the moral foundations of economic and social action are currently absent in the private sector. South Africa also illustrates the complex nature of the interdisciplinary nexus (between economy, business, society and government) to tackle structural inequality, income inequality and social inequality. In other words, the current situation shows no signs of dethroning neoclassical economic policies to follow an alternative economic paradigm. Nonetheless, BEc initiatives—already advanced in South Africa on an experimental basis—hold much promise and involve a complementary paradigm that can uplift the neoclassical economic approach. The works of the six scholars we discussed earlier suggest that a strategy that seeks a modicum of convergence between neoclassical economics and BEc is realistic and plausible.

However, several additional points have a bearing on the overall discussion. First, we view mainstream economics as neoclassical (while recognizing that proponents of alternative schools of thought would not fully accept this assumption, including those who espouse the neoclassical synthesis). Second, economic growth in itself does not result in less inequality but requires active policies of redistribution, taxation, socioeconomic engagement and amelioration of the business environment (e.g. to change a regulatory structure away from one that favors the rich 1% of society). Third, structural inequality cannot be ignored but requires sustained and significant levels of support for interventions that tackle the weaknesses inherent in the status quo. And, to yield positive results, BEc interventions must be seen as acting as a complementary and reinforcing mechanism. Fourth, redistribution needs to happen in a progressive way that does not undermine the productive capacity of the economy. Fifth, the economic concentration of wealth is related to issues of economic power and this means initiatives to promote greater equality have to recognize and pursue multidimensional policies towards charting a new course containing legal, political, economic (including BEc), social and possibly heterodox economic approaches. To be sure, while the 1994 transition (to a post-apartheid government) resulted in a political compromise in South Africa, it

did not deal with the fundamental apartheid-era legacy of gross inequality in economic power, and deep-seated social inequity that accompanied it.

Business can, however, be at the forefront of social change as well, as earlier noted with respect to the introduction of comprehensive HIV/AIDS training programs in South Africa; undertaking R&D and creating new markets; supporting limited social development activities; and opening up opportunities at the base of the pyramid. Nonetheless, these were aberrations at best (and arguably a smoke screen), and there remains a strong link between business and inequality as we have shown.

For all of these reasons, tackling inequality demands a fresh perspective that is suited to the unique economic, socioeconomic, business, political and cultural circumstances found in South Africa. An eclectic and interdisciplinary policy reform agenda is recommended, similar in spirit and content to what Stiglitz (2012, 2015) has proposed in detail—but it would need to be properly adjusted to the South African context.

BEC, through prompts, nudges and related interventions, can assist in tackling inequality in South Africa, albeit largely at both supporting and exploratory levels. Realistic interventions include financial inclusion, education, entrepreneurship and job creation. Meanwhile, heterodox economics offers a purely complementary and exploratory alternative to both neoclassical economics and BEC, but currently only with respect to theoretical configurations, methodological relevance and ethically based economic policy recommendations (cf. Lee, 2008).

Given the long-term failure of neoclassical economic policies and related social policies, coupled with the impact of post-apartheid political and business dynamics, the persistence and legitimation of inequality has been further entrenched in South Africa. Meanwhile, despite some positive initiatives, business has essentially complied in perpetuating inequality. An eclectic approach to addressing the nation's problems is therefore required. Importantly, as emphasized above, such an approach must include viewing and tackling inequality, not just with neoclassical economic approaches (currently the preferred course of action in most economies), but also through complementary BEC interventions, and possibly other promising interventions as well. And, lest we forget, the role of quantitative information

(hard data) is indispensable—as we have seen throughout this paper—in any approach to address inequality.

Concluding Remarks

Viewing inequality in the context of definitions, concepts, metrics, data, theory, policy and related perspectives, provides a powerful understanding of the subject and facilitates meaningful discussion to forge the way forward.

Measurement of inequality and the use of inequality data sets can pose numerous challenges. For example, are tax records better for measuring inequality than income surveys? There is some dissent among economists on this question and the controversy continues. Also, widespread reliance on a single, all-encompassing measure, such as the Gini co-efficient, is inherently problematic despite the popularity of the index. One suggested alternative is to use various specialized indices, measuring ethnic inequality, gender inequality, incarceration inequality and other such factors. This is already being done to a modest extent, but a more vigorous agenda is required. In addition, arriving at an estimate of structural inequality, and how to address it (as OECD research on Sweden suggests), can provide a complementary perspective and methodology. Qualitative perspectives also offer a leap forward in understanding, gauging and hence qualitatively discussing inequality and working to address it. Nonetheless, quantitative inequality metrics and corresponding data are the preferred choice in virtually all instances.

Our discussions of economic and social dimensions of inequality show a common thread in the use of redistribution programs and taxation policies as preferred instruments to tackle inequality. All six gurus of social sciences that we have examined, both economists and sociologists, agree on this point. Notwithstanding, such instruments are not sufficient by themselves and must be supplemented with complementary interventions.

In our consideration of the relationship between growth and inequality, we found that economic growth in itself does not result in less inequality but requires active policies of redistribution, taxation, socioeconomic engagement and amelioration of the business climate. The economic

concentration of wealth is related to issues of power (residing with especially the top 1% of society), rent-seeking, inherited wealth and the regulatory environment; and this means policies to promote greater equality have to recognize the multidimensional nature of inequality and choose suitable solutions to address status quo biases.

Our discussions of business inequality have yielded conclusions that are manifold. First, the various business perspectives cannot be viewed as separate from the broader business environment, into which business inequality is deeply embedded. Recognizing this has implications for not only the chosen economic and social models, but also for pursuing other courses of action (for example, ameliorating required statistics), and how business operates and its relationships with stakeholders and society at large. Second, the government and the business sector are part of the problem and part of the solution. Through the state's chosen development paradigm, and the stance and actions of the private sector, inequality can either become entrenched in society or it can be mitigated. The business sector can conceivably be part of the solution by creating social, economic and business opportunities, and by contributing towards the management and governance of economy and society—though the record is not encouraging for countries such as South Africa. Possible avenues for action to remedy entrenched inequality include: engagement in socioeconomic programs; forging of a path towards fairness and improved representation by all stakeholders; and introducing enhanced and complementary economic and social interventions. Third, it is arguably in the interests of all stakeholders in society to reduce inequality; for especially high levels of inequality are destabilizing in several respects, and can contribute to policy drift, policy uncertainty, social unrest and other forms of instability and malaise in society. This said, inequality *per se* is not undesirable, but extreme inequality, deep structural inequality and rising inequality in many countries throughout the world certainly are. Paradigms, theoretical constructs and interventions must therefore target these worrisome and problematic aspects of inequality.

The case study of South Africa confirms the weaknesses of neoclassical economics, in terms of the economic policies adopted by the state, which, along with the interplay with the private sector, legitimizes and further

entrenches inequality. Given the long-term failure of such policies in South Africa, a modicum of real-world medicine is necessary, and this requires seriously advancing a two-pronged, strategic attack that rests on a marriage between neoclassical approaches and behavioral economic tools (and at an exploratory level, possibly heterodox economic tools as well). Additionally, issues of metrics and data reliability have moved to the forefront of discussions on inequality.

The way forward is multifaceted: first, tackling inequality through appropriate interventions, such as taxation and social programs, is necessary, but it is an inadequate approach without supporting or reinforcing mechanisms with new theoretical, experimental and policy thrusts; second, an additional way forward to addressing inequality within nations, and globally, is to advance further complementarity between neoclassical economics and behavioral economics; and third, robust metrics and reliable inequality data (as well as related statistics) are indispensable for designing, implementing, monitoring and evaluating inequality interventions and policies.

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